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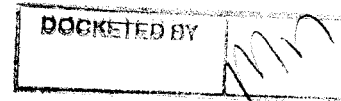
BEFORE THE ARIZONA CORPORATION COMMISSION

7 IN THE MATTER OF THE APPLICATION
8 OF CORONADO UTILITIES, INC. FOR A
9 DETERMINATION OF THE FAIR VALUE
10 OF ITS UTILITY PLANT AND PROPERTY
11 AND FOR INCREASES IN ITS RATES
12 AND CHARGES FOR UTILITY SERVICE
13 BASED THEREON.

DOCKET NO: SW-04305A-09-0291

Arizona Corporation Commission
DOCKETED

JUN - 3 2010



CORONADO UTILITIES, INC.

CLOSING BRIEF

June 3, 2010

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TABLE OF ABBREVIATIONS AND CONVENTIONS

Coronado Utilities, Inc. uses the following abbreviations in citing to the pre-filed testimony and hearing transcripts in this brief. Other documents that were admitted as exhibits during the hearing are cited by hearing exhibit number. The parties' final schedules setting forth their respective final positions will be cited in abbreviated format as follows: Company Final Schedule XXX and Staff Final Schedule XXX.* Other citations to testimony and documents are provided in full, including (where applicable) the Corporation Commission's docket number and filing date.

CORONADO UTILITIES, INC. PRE-FILED TESTIMONY

Pre-Filed Testimony	Hearing Exhibit	Abbreviation
Direct Testimony of Jason Williamson	A-1	Williamson Dt.
Rebuttal Testimony of Jason Williamson	A-2	Williamson Rb.
Rejoinder Testimony of Jason Williamson	A-3	Williamson Rj.
Direct Testimony of Thomas J. Bourassa (Rate Base)	A-4	Bourassa Dt.
Direct Testimony of Thomas J. Bourassa (Cost of Capital)	A-5	Bourassa COC Dt.
Rebuttal Testimony of Thomas J. Bourassa	A-6	Bourassa Rb.
Rejoinder Testimony of Thomas J. Bourassa	A-7	Bourassa Rj.

* Coronado filed its Final Schedules on May 17, 2010.

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**STAFF
PRE-FILED TESTIMONY**

Pre-Filed Testimony	Hearing Exhibit	Abbreviation
Direct Testimony of Karin Stukov and Gary McMurry	S-2	Stukov Dt. McMurry Dt.
Surrebuttal Testimony of Gary McMurry	S-3	McMurry Sb.

OTHER PORTIONS OF THE RECORD

	Hearing Exhibit
Letter to Arizona Water Co. April 28, 2010	A-8
Sheet No. 4 – Copy of Proposed Tariff for disconnection	A-9
Copy of Gold Canyon Sewer Service Charges	A-10
Excerpt from Decision No. 71306 on Test Year	A-11
Company response to Staff DR GTM- 4.6	S-1

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1 **INTRODUCTION**

2 Coronado Utilities, Inc. ("Coronado" or "the Company") hereby submits this
3 Closing Brief in support of its application for a determination of fair value and the setting
4 of rates for wastewater utility based thereon.¹ Coronado was ordered to file this rate case
5 by the Commission in the order granting the Company a Certificate of Convenience and
6 Necessity.² This is the Company's first rate case. Fortunately, as a result of the parties'
7 efforts, there were only two issues in dispute at the close of trial -- bad debt expense and
8 Coronado's proposed disconnection tariff.³ Following a brief background discussion,
9 these two issues are addressed below.

10 **OVERVIEW OF CORONADO AND ITS REQUEST FOR RATE RELIEF**

11 The Company's CC&N is located in Pinal County, Arizona, in and around the
12 Town of San Manuel.⁴ During the test year, Coronado provided wastewater utility service
13 to approximately 1,240 customers. The Company's customer base is predominantly
14 residential, with 60 commercial establishments, 4 schools and a trailer park.⁵ Coronado
15 also provides reclaimed water to the local golf course.

16 At the time its CC&N was approved, Coronado's customers were sending their
17 wastewater to a 50+ year old lagoon system owned and operated by the BHP Copper
18 Company.⁶ This treatment facility was unable to comply with current ADEQ
19 requirements for wastewater treatment facilities, and was replaced by Coronado with a

20 ¹ The key for abbreviations and citations to a witness pre-filed testimony is set forth in the Table of
21 Abbreviations and Conventions in pages ii to iii following the Table of Contents. The table also lists the
22 hearing exhibit numbers of the parties' pre-filed testimony. Other hearing exhibits are cited by the hearing
23 exhibit number and, where applicable, by page number, e.g., Ex. R-13 at 2. The transcript of the hearings
24 is cited by page number, e.g., Tr. at 1.

25 ² Decision No. 68608 (March 23, 2006) at 31.

26 ³ On May 27, 2010, Coronado late-filed the response letter from Arizona Water Company again declining
to pursue a water service agreement with Coronado. As discussed below, Coronado hopes this ends the
dispute over Staff's recommended relief.

⁴ Williamson Dt. at 2:15-26.

⁵ *Id.*

⁶ *Id.* at 3:1-11; *see also* Tr. at 56:16-21.

1 new 350,000 gpd wastewater treatment plant using modified extended aeration
2 technology. The new facility holds an Aquifer Protection Permit from ADEQ, produces
3 B+ effluent that is sold to the local golf course, and can be expanded later if growth occurs
4 in and around the Town.⁷ Coronado is now in compliance with all applicable regulations
5 governing its operations.⁸

6 The Company's current rates were approved in Decision No. 68608, although the
7 rates were implemented in phases over three years. The Company's rate filing utilized a
8 December 31, 2008 test year and the application was filed on June 3, 2009.⁹ During the
9 test year, Coronado's adjusted gross revenues from wastewater utility service were
10 \$868,903.¹⁰ The adjusted test year operating income was \$145.183, leading to an
11 operating income deficiency of \$114.753. Thus, the rate of return on the Company's
12 operations during the test year was only 4.11 percent.¹¹

13 The Company requests that the Commission approve a revenue requirement of
14 \$1,038,599 from wastewater utility service.¹² This proposed revenue requirement is based
15 on fair value rate base equal to \$3,531,741, total operating expenses of \$778,663, and a
16 weighted average cost of capital equal to 7.36 percent.¹³ The Company's final proposed
17 rates by class are reflected in Coronado's Final "H" Schedules, as is the Company's final
18 requested disconnection tariff. A proposed low income tariff, reflecting adoption of all of
19 Staff's final recommendations has also been filed concurrently herewith.

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⁷ *Id.*

23 ⁸ Tr. at 140:8-12; Williamson Dt. at 3:12-15.

24 ⁹ Bourassa Dt. at 2:25-26.

25 ¹⁰ Company Final Schedule A-1.

26 ¹¹ *Id.*

¹² *Id.*

¹³ Company Final Schedules A-1 and C-1.

1 **ARGUMENT**

2 As noted above, there are only two issues in dispute between Staff and the
3 Company. The first involves Staff's rejection of the test year level of bad debt expense in
4 favor of a backward looking normalized level of expense that bears no relationship to the
5 Company's current levels of this expense. The second involves Staff's conditions
6 precedent to approval of Coronado's proposed disconnection tariff. As the Company has
7 now met all of Staff's conditions, there no longer is any reason to adjudicate the legality
8 or propriety of Staff's recommendation.

9 **I. BAD DEBT EXPENSE**

10 Coronado's test year bad debt expense was \$46,313.¹⁴ The Company proposes to
11 include this amount in operating expenses, although a pro forma adjustment would be
12 justified; in 2009 Coronado experienced bad debt expense of roughly \$58,000, a known
13 and measurable increase.¹⁵ Despite the clear upward trend in bad debt expense, the
14 Company has not asked for a level of expense above the test year level. As the
15 Commission has held, the test year is presumed normal and adjustments must be based on
16 known and measurable changes and shown by the evidence to be necessary and
17 warranted.¹⁶

18 Staff's rate analyst does not agree with the Commission that the test year is
19 presumed normal.¹⁷ He also does not agree with the test year level of bad debt expense.
20 Instead, Mr. McMurry recommends a "normalized" bad debt expense level of \$18,432.¹⁸
21 Mr. McMurry's reason for reducing the test year expense level by more than 50 percent
22

23 ¹⁴ Company Final Schedule C-1, page 1 at ln. 25.

24 ¹⁵ Tr. at 100:18-20; Bourassa Rb. at 9:12 – 10:3.

25 ¹⁶ See Bourassa Rb. at 9:3-11 discussing *Chaparral City Water Company*, Decision No. 71308
(October 21, 2009) at 22 – 23.

26 ¹⁷ Tr. at 154:15-18.

¹⁸ McMurry Dt. at 9:17-19.

1 was that this expense varies widely from year to year.¹⁹ There are several flaws in Staff's
2 position and recommendation.

3 For one thing, normalizing or averaging is not a known and measurable change to
4 the test year.²⁰ It is an entirely subjective adjustment – a “guess” – by an analyst who first
5 decides which expenses to analyze (and which not to), and then which years to use in the
6 averaging.²¹ Moreover, it appears that Staff only uses averaging to look backward and
7 lower an expense level.²² Thus, normalization or averaging adjustments are inherently
8 suspect. The Commission understood this when it recently rejected an averaging
9 adjustment because Staff did not demonstrate that rejection of the test year was necessary
10 and warranted.²³ Staff has failed to make such a showing in this case as well.

11 Mr. McMurry normalized because he compared the test year (2008) to the two
12 prior years (2006 and 2007) and concluded that the test year level of bad debt expense was
13 “not normal.”²⁴ That appears to have been the extent of Mr. McMurry's analysis;
14 however, as Mr. Bourassa explained, if normalization is to be allowed, all facts and
15 circumstances must be considered.²⁵ For instance, Coronado did not even own the utility
16 in all of 2006.²⁶ Because 2006 is not representative of the Company's operation, any
17 consideration of a normalized number must exclude 2006.

18 Likewise, compelling facts and circumstances explain the 2007 level of bad debt
19 expense, relative to the test year. As Judge Rodda will recall, Coronado took over for
20

21 ¹⁹ *Id.* at 8:22-24.

22 ²⁰ Tr. at 112:16 – 113:15; Bourassa Rb at 8:12. See transcript from August 5, 2008 hearing, *Oak Creek Water Company No. 1*, Docket No. W-01392A-07-0679, at 125.

23 ²¹ See Tr. at 156:15-25; see also *id.* at 114:8 – 115:1; Bourassa Rb. at 8:13-15.

24 ²² Bourassa Rb. at 8:15-17.

25 ²³ Decision No. 71308 at 22 – 23 (rejecting normalization of chemical expense proposed by Staff because test year was higher than prior years).

26 ²⁴ McMurry Dt. at 8:23-24; McMurry Sb. at 21; Tr. at 156:6-7.

²⁵ Bourassa Rb. at 8:11; Tr. at 114:23 – 115:1.

²⁶ Tr. at 100:1 – 101:18, 114:16-17.

1 BHP in mid-2006, and during the first year the rates were much lower than the current
2 rates.²⁷ It wasn't until mid-2007 that the second phase on the increase went into effect,
3 meanwhile, Coronado was trying to figure out what it had.²⁸ The records the Company
4 inherited were inadequate to allow even for the identification of who the customers were,
5 let alone if they were paying. In addition, given the increase over what BHP was charging
6 (\$48 a year), and the phasing in, Coronado endeavored to hold off recording all of its bad
7 debt expense to give its customers an opportunity to get used to the new rates.²⁹ Given the
8 unusual background, it wasn't unreasonable for the Company to be a "good neighbor" and
9 hope that the situation would improve, especially given that it continued making efforts to
10 collect unpaid fees.³⁰

11 In 2008, the Company began to aggressively record bad debt expense and pursue
12 collections.³¹ In 2008, the economy also slid into a very deep recession, a situation that
13 merely exacerbated the already difficult economy in the Town of San Manuel.³² The
14 effects of all these factors could be seen in the Company's test year bad debt expense
15 followed by 2009 when bad debt expense increased to \$58,000. Not only did
16 Mr. McMurry fail to recognize and explain this upward trend, he actually refused to
17 consider the bad debt expense level for 2009 in any way.³³ How can Staff determine that
18 test year is not normal without looking at the first full year after? The rates approved in
19 this case will not be in effect in 2006, 2007, 2008, or even 2009 or most of 2010. In other
20 words, the facts and circumstances not only fail to support, but they also contradict Staff's
21 analysis and recommendation.

22 ²⁷ Decision No. 68608 at 12 – 16.

23 ²⁸ Tr. at 59:5 – 60:1, 101:2-18; Williamson Rb. at 4:9-16.

24 ²⁹ *Id.*

25 ³⁰ Tr. at 58:14 – 62:16, 101:2-9.

26 ³¹ *Id.* at 60:23 – 61:5.

³² Williamson Rb. at 4:19 – 5:2; Bourassa Dt. at 10:10-21.

³³ Tr. at 157:1-7, 158:12-15.

1 Nevertheless, in further defense of his adjustment, Mr. McMurry turned to
2 criticizing the Company's collection efforts.³⁴ This was unfortunate, as well as
3 unwarranted. First, as explained by Mr. Williamson, Coronado took over a very old
4 system with poor records, run by a mining company in an economically-depressed town a
5 year before the Great Recession, which then had phased in dramatic rate increases over 3
6 years. "Bad debt expense is a reflection of a customer base and ability to pay or
7 willingness to pay."³⁵ Staff did not need to look far and wide for reasons to explain the
8 steep upward trend in the Company's bad debt expense. The reasons were historical and
9 in plain view.

10 Second, from the outset, the Company has pursued collections, and beginning in
11 2008, it began recording all bad debt expense and pursuing collections.³⁶ The Company's
12 collection efforts include turning matters over to a collection agency that uses various
13 means of collecting, including reporting to credit bureaus.³⁷ The Company also has
14 attempted to reach an agreement with Arizona Water on service termination,³⁸ and has
15 twice proposed a disconnection tariff, including the one in this rate case.³⁹ In light of
16 these facts and circumstances, Mr. McMurry's criticism is simply unjustified. Coronado
17 has and continues to use normally recognized and available means to collect fees for
18 services rendered and there simply isn't substantial evidence to the contrary.

19 In summary, the Company's test year bad debt expense level, while low relative to
20 the current level of this expense, is just and reasonable and Staff has failed to meet its
21 burden to show otherwise.

22
23 ³⁴ McMurry Sb. at 9:5 – 10:9.

24 ³⁵ Tr. at 112:10-13.

25 ³⁶ *Id.* at 58:14 – 62:16, 100:1 – 101:18; Williamson Rj. at 2:3 – 3:25.

26 ³⁷ *Id.*

³⁸ Tr. at 193:11 – 197:6.

³⁹ Company Final Schedule H-3, page 2.

1 **II. DISCONNECTION FOR NON-PAYMENT**

2 As explained in the Company's Request for Summary Adjudication, Coronado has
3 had concerns about the propriety, legally and otherwise, of Staff's recommendation that
4 Coronado be ordered to pursue a water service termination agreement with an unaffiliated
5 third-party that is not a part of this rate case.⁴⁰ Now, however, with the filing of a
6 response letter from the water utility on May 27, 2010, Coronado has satisfied all of the
7 conditions Staff recommended be satisfied before the disconnection tariff could go in
8 effect.⁴¹ As such, there is no longer any reason to deny the relief sought in the form of the
9 proposed disconnection tariff.

10 **CONCLUSION**

11 Based on the foregoing, Coronado respectfully requests the following relief:

- 12 a. A finding that the fair value of Coronado's property devoted to wastewater
13 service is \$3,531,741;
- 14 b. Approval of an overall rate of return on such rate base equal to 7.36 percent;
15 and
- 16 c. A determination of a revenue requirement for Coronado of \$1,038,599,
17 constituting an increase in revenues of \$169,696, or 19.53 percent over adjusted test year
18 revenues;
- 19 d. Approval of the Company's other tariffs of rates and charges including the
20 Low Income tariff jointly proposed by Staff and Coronado (filed concurrently herewith)
21 and the Company's proposed and unopposed disconnection tariff.

22 ...

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⁴⁰ Request for Summary Adjudication Regarding Staff Recommendation Concerning Disconnection for
25 Non-Payment, filed March 22, 2010. Coronado hereby incorporates this filing herein as part of its Closing
26 Brief.

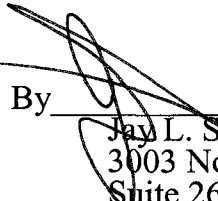
⁴¹ McMurry Sb. at 3:24 – 15. See also Tr. at 67:4-9, 193:11 – 197:6.

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RESPECTFULLY SUBMITTED this 3rd day of June, 2010.

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